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Headline: Asia's wealthy families lose patience with hedge funds

UBS said family offices in Asia, whose goal is to grow the wealth of rich families, switched out of hedge funds after they trailed stock markets in the wake of the 2008 financial crisis. PHOTO: BLOOMBERG

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The big hedge funds have become complacent, meaning they put more emphasis on the management fee than performance fee.

MR MICHAEL PREISS, executive director at the Taurus Wealth Advisors multifamily office, on the mediocre returns.

For Michael Preiss, whose firm oversees US$1.9 billion (S$2.8 billion) mainly for wealthy Asian families, adding hedge funds to his clients' portfolios was an easy sell some years ago. Not anymore.

The executive director at Singapore-based Taurus Wealth Advisors multifamily office said his clients are disappointed with mediocre hedge fund returns and baulking at high fees, prompting them to shift to private equity.

With redemptions already at a four-year high, Asia's richest people comprise an investor group regional hedge funds can ill afford to lose.

Family offices representing billionaires and multimillionaires are a key source of capital in Asia, where global pension funds and university endowments have not made large inroads. Managers seeking money for new hedge funds are likely to be hit the hardest.

"Asia's hedge funds are smaller than their global peers, meaning they are more dependent on money from high-net-worth individuals and family offices," said Mr Melvyn Teo, a professor of finance at Singapore Management University (SMU). "If family offices withdraw money, the region's hedge fund industry will clearly feel the pinch."

UBS Group in November said family offices worldwide have turned away from hedge funds after they trailed stock markets in the wake of the 2008 financial crisis.

The trend is even more pronounced in Asia, where family offices set more aggressive performance goals, said Mr Eric Landolt, UBS' head of family advisory for Asia Pacific.

"Family offices are usually here to add wealth to the family," he added.

"It is a growth engine for the family, whereas in Europe or the United States, there is a much stronger wealth-preservation angle."

Mr Ray Nolte, chief investment officer of US-based fund of hedge funds SkyBridge Capital, said last month he is shunning Asian hedge funds because of mounting risks in China's debt markets.

Hedge funds investing in Asia suffered US$1.6 billion of withdrawals through November, on track for the biggest outflows in four years, as their returns trailed the industry's globally, according to the latest estimates from data provider Eurekahedge.

"The big hedge funds have become complacent, meaning they put more emphasis on the management fee than performance fee," Mr Preiss said.

The ultra-rich families backing Taurus instead want to put their money directly into technology companies, he added.

At multifamily office Golden Equator Capital, the share of assets allocated to hedge funds has more than halved to less than 10 per cent.

But its founder and chief executive Shirley Chua noted that private-equity investments have doubled to 20 per cent.

She added that her clients are particularly interested in closely-held US companies focusing on disruptive technologies such as car-hailing icon Uber Technologies and Magic Leap, a start-up working on a device that simulates reality.

New hedge funds in Asia are particularly affected by the reluctance of family offices to invest, said SMU's Mr Teo.

"Especially for hedge fund start-ups, the bar has been raised because of this," he added. BLOOMBERG